Highland County Joint Township District Hospital

Consolidated Financial Report with Additional Information December 31, 2001

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Directors and Board of Governors
Highland County Joint Township District Hospital

We have reviewed the Independent Auditor's Report of the Highland County Joint Township District Hospital, Highland County, prepared by Plante & Moran, LLP for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Highland County Joint Township District Hospital is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

June 5, 2002

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Highland County Joint Township District Hospital

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Independent Auditor's Report

To the Joint Township District Hospital Board of Directors and Hospital Board of Governors
Highland County Joint Township District Hospital
Hillsboro, Ohio

We have audited the accompanying consolidated balance sheets of Highland County Joint Township District Hospital and subsidiaries (Highland District Foundation, Highland Joint Township District Foundation, and Highland District Professional Service Corporation) as of December 31, 2001 and 2000, and the related consolidated statements of revenue and expenses of general funds, changes in fund balances, and cash flows of general funds for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Highland County Joint Township District Hospital and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations, changes in their fund balances, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2002, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, LLP

March 25, 2002

Highland County Joint Township District Hospital

	December 31	
	2001	2000
Assets		
General Funds		
Current Assets		
Cash and cash equivalents (Note 2)	$ 1,233,516	$ 975,166
Assets limited as to use, current portion (Note 2)	439,997	696,009
Patient accounts receivable (Note 3)	5,511,534	4,940,388
Inventories	306,683	321,343
Prepaid expenses and other current assets	342,731	178,576
Accrued interest receivable	24,788	36,405
Notes receivable, current portion (Note 4)	336,229	154,598
Other receivables	415,438	32,217
Total current assets	8,610,916	7,334,702
Assets Limited as To Use (Note 2)		
Total assets limited as to use	2,997,987	3,848,565
Less amounts to meet current obligations	(439,997)	(696,009)
Assets limited to use, noncurrent portion	2,557,990	3,152,556
Property, Plant and Equipment, Net (Notes 5,7)	16,464,110	15,740,423
Other Assets		
Notes receivable - net of current portion (Note 4)	525,121	381,519
Intangible assets	105,000	140,000
Unamortized financing costs, net	131,859	160,214
Total other assets	761,980	681,733
Total assets	**$ 28,394,996**	**$ 26,909,414**
Donor Restricted Funds		
Specific Purpose Funds		
Investments (Note 2)	$ 845,029	803,799
Accrued interest receivable	4,767	7,535
Total specific purpose funds	**$ 849,796**	**$ 811,334**
Endowment Funds		
Investments (Note 2)	**$ 19,668**	**$ 19,077**

Highland County Joint Township District Hospital

Consolidated Balance Sheet

	December 31	
	2001	2000
Liabilities and Fund Balances		
General Funds		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 367,023	201,109
Accounts payable - trade	2,170,680	1,228,754
Accounts payable - construction (Note 12)	78,721	494,900
Accrued expenses - employee compensation	1,350,117	1,196,167
Accrued expenses - other	424,447	450,942
Estimated amounts due third-party payors (Note 6)	82,075	229,685
Total current liabilities	4,473,063	3,801,557
Long-Term Debt, Net of Current Portion (Note 7)	11,843,020	11,408,474
Fund Balance, General Funds	12,078,913	11,699,383
Total Liabilities and Fund Balance	**$ 28,394,996**	**$26,909,414**
Donor-Restricted Funds		
Specific-Purpose Funds - Fund balance	**$ 849,796**	**$ 811,334**
Endowment Funds - Fund balance	**$ 19,668**	**$ 19,077**

Highland County Joint Township District Hospital

Consolidated Statement of Revenue and Expenses of General Fund

	Year Ended December 31	
	2001	2000
Operating Revenue		
Net patient service revenue (Note 8)	$ 35,257,630	$ 29,596,216
Other operating revenue	452,174	503,521
Total operating revenue	35,709,804	30,099,737
Operating Expenses		
Salaries and wages	13,484,139	10,852,681
Employee benefits	3,935,738	2,642,422
Supplies	4,095,696	3,644,914
Purchased services	4,328,904	3,135,639
Physician fees	2,588,006	2,798,595
Bad debt expense	2,350,138	2,828,589
Depreciation	1,839,958	1,738,546
Professional fees	550,581	361,770
Utilities	726,500	615,936
Interest	818,718	797,704
Insurance	296,899	169,350
Other	582,884	405,649
Total operating expenses	35,598,161	29,991,795
Income from Operations	111,643	107,942
Nonoperating Gains (Losses)		
Investment income	240,768	245,927
Loss on disposal of assets	(33,218)	(40,273)
Other nonoperating gains	60,337	-
Total nonoperating gains	267,887	205,654
Revenue and gains in excess of expenses	**$ 379,530**	**$ 313,596**

Highland County Joint Township District Hospital

Consolidated Statement of Changes in Fund Balances

	Year Ended December 31	
	2001	2000
General Fund		
Balance - Beginning of year	**$ 11,699,383**	**$ 11,385,787**
Excess of revenue over expenses	379,530	313,596
Balance - End of year	**$ 12,078,913**	**$ 11,699,383**
Donor Restricted Funds		
Specific Purpose Funds		
Balance - Beginning of year	**$ 811,334**	**$ 740,973**
Income from investments	38,461	70,361
Balance - End of year	**$ 849,795**	**$ 811,334**
Endownment Funds		
Balance - Beginning of year	**$ 19,077**	**$ 15,880**
Income from investments	591	3,197
Balance - End of year	**$ 19,668**	**$ 19,077**

Highland County Joint Township District Hospital

Consolidated Statement of Cash Flows of General Fund

	Year Ended December 31 2001	2000
Cash Flows from Operating and Nonoperating Activities		
Cash received from patients and third-party payors	$ 30,031,872	$ 25,697,079
Cash payments to suppliers for services and goods	(10,248,630)	(9,853,447)
Cash payments to employees for services	(17,265,927)	(13,306,196)
Other operating revenue received	80,570	463,376
Interest paid	(816,758)	(797,259)
Net cash provided by operating and nonoperating activities	1,781,127	2,203,553
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(2,549,636)	(2,508,106)
Renovations/construction to Hospital financed by long-term debt	(416,179)	103,435
Principal payments on bonds	(238,431)	(125,000)
Issuance of long-term debt	915,000	-
Principal payments on capital leases	(76,109)	(192,371)
Proceeds from sale of capital assets	3,452	1,519
Net cash used in capital and related financing activities	(2,361,903)	(2,720,523)
Cash Flows from Investing Activities		
Advances to physicians - net of forgiveness	(325,233)	(240,030)
Income received on investments	240,768	245,927
Income from other nonoperating gains	60,337	-
Proceeds from sale of investments	850,578	957,164
Net cash provided by investing activities	826,450	963,061
Net Increase in Cash and Cash Equivalents	245,674	446,091
Cash and Cash Equivalents - Beginning of year	1,267,060	820,969
Cash and Cash Equivalents - End of year (Note 2)	**$ 1,512,734**	**$ 1,267,060**

Highland County Joint Township District Hospital

Consolidated Statement of Cash Flows of General Fund (Continued)

A reconciliation of income from operations to net cash from operating and non-operating activities is as follows:

	Year Ended December 31	
	2001	2000
Cash Flows from Operating Activities and Nonoperating Gains		
Income from operations	$ 111,643	$ 107,942
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	1,839,958	1,738,546
Provision for bad debts	2,350,138	2,828,589
(Increase) decrease in assets:		
Patient receivables	(2,921,284)	(2,406,957)
Other receivables	(383,221)	(59,524)
Inventory	14,660	41,823
Prepaid expenses	(164,155)	(61,920)
Accrued interest receivable	11,617	19,379
Increase (decrease) in liabilities:		
Accounts payable	941,926	(471,986)
Accrued payroll	153,950	188,907
Accrued expenses	(26,495)	218,229
Estimated amounts due third-party payors	(147,610)	60,525
Net cash provided by operating activities and nonoperating gains	**$1,781,127**	**$2,203,553**

Supplemental Cash Flow Information:		
Property additions financed through capital leases	**$ -**	**$ 300,574**

Note 1 – Nature of Business and Significant Accounting Policies

Reporting Entity/Basis of Consolidation – The accompanying consolidated financial statements include the accounts of Highland County Joint Township District Hospital (the Hospital) and its two subsidiaries, Highland District Hospital Foundation and Highland District Professional Services Corporation (collectively, the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

Highland County Joint Township District Hospital is a 63-bed, acute care facility located in Hillsboro, Ohio, serving patients in Highland County. The Hospital is a political subdivision of the State of Ohio and was formed under the provisions of the Ohio Revised Code. Trustees from each of the 17 townships of Highland County constitute the Highland County Joint Township District Hospital Board of Directors who appoint the Hospital Board of Governors, which is composed of one member from each township and three at-large members.

During 1999, the Hospital formed the Highland District Hospital Foundation (HDH Foundation) as a not-for-profit corporation under the Internal Revenue Code 501(c)(3). The Foundation is controlled by the Hospital's Board of Governors.

Also during 1999, the Hospital formed the Professional Services Corporation (PSC), a for-profit corporation, to further the charitable purposes of the Foundation and the Hospital.

During 2001, the Hospital formed the Highland Joint Township District Foundation (HJTD Foundation), as a not-for-profit corporation under the Internal Revenue Code 501(c)(3), to raise and hold contributions for the benefit of the Hospital.

Basis of Presentation – The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America as recommended in the Audit Guide (Audits of Providers of Health Care Services) published by the American Institute of Certified Public Accountants. The significant accounting policies conform to accounting principles generally accepted in the United States of America for governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Hospital also applies the Financial Accounting Standard Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents – Cash and cash equivalents are defined as short-term, highly liquid investments purchased with initial maturities of three months or less.

Inventories – Inventories, consisting primarily of medical supplies, food, and drugs, are valued at the lower of cost, determined by the first-in, first-out method, or market.

Note 1 – Nature of Business and Summary of Significant Accounting Policies (Continued)

Assets Limited as to Use – Assets limited to use consist of invested funds designated by the Hospital's Board of Governors for employee benefits, the replacement, improvement, and expansion of the Hospital's facilities, and invested funds restricted in connection with the Hospital's general obligation bonds. Amounts required to meet current obligations are recognized as current assets.

Property and Equipment – Property, plant and equipment are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Equipment under capital leases is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Cost of maintenance and repairs are charged to expense when incurred.

Unamortized Financing Costs – Cost incurred in obtaining long-term bond financing are being amortized over the period the obligations are outstanding using the straight-line method. Amortization expense totaled $1,610 and $2,447 in 2001 and 2000, respectively. In 2001, $26,745 of financing costs related to 1990 and 1998 bond issuances were written off.

Intangible Assets – Intangible assets are related to the acquisition of a physician practice in 1999 and are being amortized on a straight-line basis over a 10-year period. Amortization expense totaled $35,000 and $32,083 in 2001 and 2000, respectively.

Compensated Absences – Paid time off is charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements.

Use of Estimates – The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue – The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others. Retroactive adjustments to these estimated amounts are recorded in future periods, as final settlements are determined.

Note 1 – Nature of Business and Summary of Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations can be subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Income from Operations – For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Charity Care – The Hospital provides care to patients who meet certain criteria under the Hill-Burton charity care policy and the Hospital's charity policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Pension Plan – Substantially all of the Hospital's employees are eligible to participate in a defined benefit pension plan sponsored by the Public Employees Retirement System of Ohio (PERS). The Hospital funds pension costs accrued, based on contribution rates determined by PERS.

Federal Income Tax – As a political subdivision, the Hospital is exempt from taxation under the Internal Revenue Code. The Professional Service Corporation is a taxable corporation, and files tax returns based on taxable income, which was not significant based on losses for 2001 and 2000.

Donor-Restricted Funds – The Hospital has received certain restricted donations and has established restricted funds in accordance with the donors' stipulations. Investments held in the specific-purpose funds and income earned thereon are to be used for the acquisition of property and equipment. Funds expended during the year for property and equipment are recognized as transfers to the general fund balance. The principal of investments held in the endowment fund may not be expended. Funds restricted by donors for specific operating purposes are reported in other operating revenues when expended for the designated purposes.

Note 2 – Deposits and Investments

Cash deposits, assets whose use is limited, and investments (all of which are considered available for sale) of the Hospital are composed of the following:

	2001		2000	
	Fair value	Amoritzed Historical Cost	Fair value	Amoritzed Historical Cost
Demand deposits and money market accounts	$ 1,512,734	$ 1,497,314	$ 1,267,060	$ 1,266,915
Common stocks	66,412	13,250	66,016	13,250
U.S. government obligations	3,517,054	3,476,165	4,313,531	4,264,488
Total	**$5,096,200**	**$4,986,729**	**$5,646,607**	**$5,544,653**

Amounts summarized by fund type:	Fair value	Amortized Historical Cost	Fair value	Amortized Historical Cost
General funds				
Cash	$ 1,233,516	$ 1,218,191	$ 975,166	$ 975,166
Assets limited as to use	2,997,987	2,965,138	3,848,565	3,751,496
Specific purpose funds	845,029	788,167	803,799	795,034
Endowment funds	19,668	15,328	19,077	22,957
	$5,096,200	**$4,986,824**	**$5,646,607**	**$5,544,653**

At December 31, 2001, the bank balance of the Hospital's demand deposits and money market accounts totaled $1,233,507. Of this balance, $104,601was covered by federal depository insurance and $1,128,906 was collateralized with securities held in a pooled collateral account at the pledging bank.

Investments in U.S. government obligations were uninsured and held by the Hospital's agent in the Hospital's name. Investments in common stock were held by the Hospital in the Hospital's name.

Note 2 – Deposits and Investments (Continued)

Assets Limited as to Use - The composition of assets whose use is limited is set forth below.

	2001	2000
By Board, for capital improvements	$ 1,772,485	$ 2,780,534
Held by trustee, under Board Indenture agreements	1,225,502	1,068,031
Total	**$ 2,997,987**	**$ 3,848,565**

Note 3 – Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2001	2000
Total patient accounts receivable	$ 16,296,534	13,337,388
Less allowance for:		
Uncollectible accounts	(8,573,000)	(6,166,000)
Contractual adjustments	(2,212,000)	(2,231,000)
Net patient accounts receivable	**$ 5,511,534**	**$ 4,940,388**

Note 4 – Notes Receivable

Notes receivable represents loans to physicians under various cash flow support and loan arrangements. These loans are to be repaid in varying monthly installments including interest at the prime lending rate and are unsecured. A majority of the physician notes receivable are forgiven over time under the terms as specified in the physician loan agreement. A summary of these amounts outstanding is as follows:

	2001	2000
Notes receivable	$ 861,350	$ 536,117
Less: Current portion	(336,229)	(154,598)
Long term portion	**$ 525,121**	**$ 381,519**

Note 5 – Property, Plant, and Equipment

Cost of property and equipment and depreciable lives are summarized as follows.

	2001	2000	Depreciable Life-Years
Land	$ 15,437	$ 15,437	
Land improvements	991,316	749,789	15-40
Buildings	10,735,524	10,492,171	40
Equipment	14,752,717	12,948,025	3-25
Equipment - capital leases	303,429	803,029	5
Construction in progress	267,605	307,381	
Total	27,066,028	25,315,832	
Less accumulated depreciation	(10,601,918)	(9,575,409)	
Property, plant, and equipment-net	**$ 16,464,110**	**$ 15,740,423**	

Depreciation expense totaled $1,803,348 and $1,704,016 in 2001 and 2000, respectively.

Note 6 – Estimated Amounts Due to Third Party Payers (Cost Report Settlements)

Approximately 54 percent of the Hospital's revenue from patient services are received from the Medicare and Medicaid programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows.

Medicare – Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Beginning August 1, 2000, reimbursement for most outpatient services are based on the new prospectively determined ambulatory payment classification system. However, the Hospital is held harmless until July 31, 2003, under this new outpatient payment system, should it result in less reimbursement than the payment system in place before August 1, 2000.

Note 6 – Estimated Amounts Due to Third Party Payers (Cost Report Settlements) (Continued)

Medicaid – Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid inpatients are paid on a cost-reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

Final reimbursement under these programs is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

Note 7 – Long-Term Debt

In 1999, general obligation bonds of $11,500,000 were issued to finance the construction of the Eloise H. Yochum Medical Center, an expanded outpatient facility substantially completed in October 1999. Such bonds bear interest at 6.75 percent, with annual principal payments due through December 1, 2029, and are collateralized by essentially all equipment and future revenues of the Hospital.

The Hospital is bound by the terms of the bond and trustee agreements to various operational and financial covenants, including maintaining a minimum debt service ratio of 1.2 to 1.

On January 26, 2001, the Hospital obtained $700,000 of Hospital Facilities Revenue Bonds, Series 2001, from a bank to finance the construction of the Edith Brown Pavilion. The bonds are payable in monthly installments of $13,559, which includes interest at 6.08 percent, beginning February 26, 2001. The bonds are secured by future revenues of the Edith Brown Pavilion (Hospital).

On November 29, 2001, the PSC obtained a $215,000 mortgage loan to purchase medical office building and related property. The mortgage is payable in monthly installments of $1,583, which includes interest at 6.250 percent, beginning December 29, 2001, and matures in November 2021. The mortgage is secured by the medical office building and property.

The Hospital leases medical equipment used in its operations under capital leases. Such capital leases are due in monthly installments, including interest rates that range from 5.82 to 6.0 percent through January 2005, and are collateralized by the equipment leased. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or fair value to the assets. The assets are depreciated over their related lease terms. Depreciation of assets under capital leases is included in depreciation expense for 2001 and 2000.

Note 7 – Long-Term Debt (Continued)

Long-term debt consists of the following:

	2001	2000
Hospital Facilities Revneue Bonds, Series 1999	$ 11,250,000	$ 11,375,000
Hospital Facilities Revenue Bonds, Series 2001	587,031	-
PSC Mortgage Loan	214,538	-
Obligations under capital lease	158,474	234,583
Total	12,210,043	11,609,583
Less current portion	(367,023)	(201,109)
Long-term portion	**$ 11,843,020**	**$ 11,408,474**

The following is a schedule of bond and mortgage principal and future minimum lease payments as of December 31, 2001.

	Bond Payable	Lease Payable
2002	$ 286,364	$ 87,753
2003	294,900	41,805
2004	303,970	37,628
2005	338,609	3,136
2006	195,865	-
Thereafter	10,631,861	-
Total payments	**$ 12,051,569**	170,322
Less amount representing interest		(11,848)
Net minus lease payments		**$ 158,474**

The carrying value of equipment under capital lease obligations is as follows:

	2001	2000
Cost of equipment under capital lease	$ 303,429	$ 803,029
Less accumulated amortization	114,681	545,163
Net carrying amount	**$ 188,748**	**$ 257,866**

Note 8 – Net Patient Service Revenue

Net patient service revenue consists of the following.

	2001	2000
Revenue:		
Inpatient services		
Routine services	$ 6,351,146	$ 4,581,903
Ancilliary services	13,405,123	12,773,843
Outpatient services	33,164,081	28,652,130
Total patient revenue	52,920,350	46,007,876
Revenue deductions		
Provision for contractual allowances	16,935,898	15,168,622
Provision for charity care	726,822	1,243,038
Total revenue deductions	17,662,720	16,411,660
Total net patient service revenue	**$ 35,257,630**	**$ 29,596,216**

Note 9 – Employee Benefits (Defined Benefit Pension Plan)

Plan Description – The Hospital contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employees Retirement System. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code assigns authority to establish and amend benefit provisions to the PERS Board of Trustees. PERS issues a stand-alone financial report available to the public that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-466-2085 or 1-800-222-PERS(7377).

Funding Policy – Plan members are required to contribute 8.50 percent of their annual covered salary, and the Hospital is required to contribute at an actuarially determined rate of annual covered payroll. The rate was 13.55 percent for 2001. The contribution requirement of plan members and the Hospital is established and may be amended by the PERS Board of Trustees. The Hospital's contribution to PERS for the years ended December 31, 2001, 2000, and 1999, were $1,663,046, 1,030,736, and $1,234,260, respectively.

Note 9 – Employee Benefits (Defined Benefit Pension Plan) (Continued)

Post-Retirement Benefits – Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB), as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for funding of post-retirement contributions. The 2001 employer contribution rate for local government employer units was 13.55 percent of covered payroll. Of this amount, 4.3 percent was the portion that was used to fund health care throughout the year. The portion of the employer's contribution used to fund post-employment benefits was $527,684.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS.

OPEB's are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

The number of active contributing participants during 2001 was 411,076. As of December 31, 2000, the actuarial value of the Retirement System's net assets available for OPEB was $11,736 million. The actuarially-accrued liability and the unfunded actuarial-accrued liability based on the actuarial cost method used, were $14,365 million and $2,629 million, respectively.

Note 10 – Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Hospital has purchased commercial insurance for malpractice, general liability, employee medical, and workers' compensation claims.

The Hospital is insured against medical malpractice claims under a claim-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual claims exceeding $1,000,000, or aggregate claims exceeding $3,000,000, for claims asserted in the policy year. In addition, the Hospital has an umbrella policy with an additional $5,000,000 of coverage.

Note 10 – Risk Management (Continued)

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Hospital is not aware of any such medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Hospital's cost for such claims for the year, and it has been charged to operations as a current expense.

Note 11 – Litigation

In 2000, the Hospital filed a countersuit against the constructor and a third-party complaint against the architect, construction manager, and manufacturer of the cladding used on the Hospital Health Care Center addition. The countersuit was filed in response to a suit filed by the general contractor of the Health Care Center for non-payment. The suit is based on the substantial damages caused to the Hospital's property because of defects in the design and construction of the Health Care Center addition. In January 2002, the Hospital reached a settlement with the construction manager for $200,000. At this time, the Hospital continues to seek settlement with the architect, construction manager, and manufacturer of the cladding. No estimate can be made of the time or the amount, if any, of ultimate recovery. The amount of the contract with these individuals that remains unpaid has been accrued as of December 31, 2001.

Note 12 – Subsequent Event

In January 2002, the Hospital obtained a $1.3 million purchase-lease agreement to finance the purchase of equipment. The lease is payable in monthly installments of $25,069, beginning February 28, 2002, and matures in January 2007.

Additional Information

To the Joint Township District Hospital Board of Directors and Hospital Board of Governors
Highland County Joint Township District Hospital
Hillsboro, Ohio

We have audited the consolidated financial statements of Highland County Joint Township District Hospital for the year ended December 31, 2001. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information in the accompanying schedules is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Moran, LLP

March 25, 2002

Highland County Joint Township District Hospital

Combining Schedule of Balance Sheet Accounts
December 31, 2001

	Hospital	HDH Foundation	PSC	HJTDF Foundation	Eliminations	Total
General Funds - Assets						
Current Assets						
Cash and cash equivalents	$1,148,216	$1,127	$68,848	$15,325	$ -	$1,233,516
Assets limited as to use, current portion	439,997	-	-	-	-	439,997
Patient accounts receivable, net	5,098,221	-	413,313	-	-	5,511,534
Intercompany receivable	282,389		-	5,425	(287,814)	-
Inventories	306,683	-	-	-	-	306,683
Prepaid expenses and other current assets	246,086	-	96,645	-	-	342,731
Accrued interest receivable	24,788	-	-	-	-	24,788
Notes receivable, current portion	336,229	-	-	-	-	336,229
Other receivables	375,056	-	40,382	-	-	415,438
Total current assets	8,257,665	1,127	619,188	20,750	(287,814)	8,610,916
Assets Limited as to Use						
Under debt agreement	1,350,626	-	-	-	-	1,350,626
By Board for employee benefits	160,395	-	-	-	-	160,395
By Board for capital improvements	1,486,966	-	-	-	-	1,486,966
Total assets limited as to use	2,997,987	-	-	-	-	2,997,987
Less amounts to meet current construction obligations	(439,997)	-	-	-	-	(439,997)
Assets limited to use, noncurrent portion	2,557,990	-	-	-	-	2,557,990
Property, Plant and Equipment, net	15,768,340	-	695,770	-	-	16,464,110
Other Assets						
Notes receivable, net of current portion	525,121	-	-	-	-	525,121
Intangible assets	-	-	105,000	-	-	105,000
Unamortized financing costs, net	131,859	-	-	-	-	131,859
Other investments	828,527	84,433	-	-	(912,960)	-
Total other assets	1,485,507	84,433	105,000	-	(912,960)	761,980
Total assets	**$ 28,069,502**	**$ 85,560**	**$ 1,419,958**	**$ 20,750**	**$ (1,200,774)**	**$ 28,394,996**
Donor-Restriced Funds - Specific Purpose Funds						
Investments	845,029	-	-	-	-	845,029
Accrued interest receivable	4,767	-	-	-	-	4,767
Total specific purpose funds	**$ 849,796**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 849,796**
Endowment Funds - Investments	**$ 19,668**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 19,668**

Highland County Joint Township District Hospital

Combining Schedule of Balance Sheet Accounts (Continued)
December 31, 2001

	Hospital	HDH Foundation	PSC	HJTDF Foundation	Eliminations	Total
			General Funds			
Liabilities and Fund Balances						
Current Liabilities						
Current portion of long-term debt	$361,276	$ -	$ 5,747	$ -	$ -	$367,023
Accounts payable - trade	2,119,425	-	45,483	-	5,772	2,170,680
Intercompany payable	5,425	-	282,389	-	(287,814)	-
Accounts payable - construction	78,721	-	-	-	-	78,721
Accrued expenses - employee compensation	1,291,295	-	58,822	-	-	1,350,117
Accrued expenses - other	424,447	-	-	-	-	424,447
Estimated amounts due third-party payors	82,075	-	-	-	-	82,075
Total current liabilities	4,362,664	-	392,441	-	(282,042)	4,473,063
Long-Term Debt, net						
Current Portion (Note 5)	11,634,230	-	208,790	-	-	11,843,020
Fund Balance, General Funds	12,072,608	85,560	818,727	20,750	(918,732)	12,078,913
Total liabilities and fund balances	**$ 28,069,502**	**$ 85,560**	**$ 1,419,958**	**$ 20,750**	**$ (1,200,774)**	**$ 28,394,996**
			Donor-Restricted Funds			
Specific-Purpose Funds - Fund Balance	**$ 849,796**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 849,796**
Endowment Funds - Fund balance	**$ 19,668**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 19,668**

Highland County Joint Township District Hospital

Combining Schedule of Revenue and Expenses of General Fund
December 31, 2001

	Hospital	HDH Foundation	PSC	HJTDF Foundation	Eliminating	Total
Net Patient Service Revenue	$34,208,472	$ -	$ 1,049,158	$ -	$ -	$35,257,630
Other Operating Revenue	452,072	-	102	-	-	452,174
Total Revenue	34,660,544	-	1,049,260	-	-	35,709,804
Operating Expenses						
Salaries and wages	12,394,480	-	1,089,659	-	-	13,484,139
Employee benefits	3,777,526	-	158,212	-	-	3,935,738
Supplies	4,043,023	-	52,673	-	-	4,095,696
Purchased services	4,274,357	-	54,547	-	-	4,328,904
Physician fees	2,528,423	-	59,583	-	-	2,588,006
Bad debt expense	2,350,138	-	-	-	-	2,350,138
Depreciation	1,748,281	-	91,677	-	-	1,839,958
Professional fees	540,581	10,000	-	-	-	550,581
Utilities	687,629	-	38,871	-	-	726,500
Interest	817,599	-	1,119	-	-	818,718
Insurance	284,074	-	12,825	-	-	296,899
Other	388,022	1,072	193,790	-	-	582,884
Total operating expenses	33,834,133	11,072	1,752,956	-	-	35,598,161
Income (Loss) from Operations	826,411	(11,072)	(703,696)	-	-	111,643
Nonoperating Gains (Losses)						
Investment income	240,670	98	-	-	-	240,768
Loss on disposal of assets	(33,218)	-	-	-	-	(33,218)
Other non-operating gains	-	-	39,587	20,750	-	60,337
Total non-operating gains	207,452	98	39,587	20,750	-	267,887
Equity in Loss of Consolidated Subsidiary	(664,109)	-	-	-	664,109	-
Revenue and Gains in Excess of Expenses (Expenses in Excess of Revenues and Gains)	**$ 369,754**	**$ (10,974)**	**$ (664,109)**	**$ 20,750**	**$ 664,109**	**$ 379,530**

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Report Letter on Compliance with Laws and Regulations and Internal Control – Basic Financial Statements

To the Joint Township Hospital Board of Directors and Hospital Board of Governors
Highland County Joint District Hospital and Subsidiaries

We have audited the financial statements of Highland County Joint District Hospital and subsidiaries as of and for the year ended December 31, 2001, and have issued our report thereon dated March 25, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Highland County Joint District Hospital financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance that is required to be reported under *Government Auditing Standards*.

Condition – During our testing of compliance with certain laws and regulations, we were unable to obtain evidence that the Hospital published notice in local newspapers stating their financial report for 2000 was available for public inspection at the office of the chief fiscal officer.

Recommendation – Management should publish such notice in all local newspapers within the area representative of the townships that are members of the Hospital.

Condition - During our testing of compliance with certain laws and regulations, we were unable to obtain evidence that the Hospital filed its written investment policy with the Auditor of State. The Hospital holds certain investments that require the Hospital to file the investment policy with the Auditor of State. However, we noted that the Hospital maintains investments in authorized types allowed under the Ohio Revised Code.

Recommendation - Management should file a copy of their written investment policy with the Auditor of State.

Condition - During our testing of compliance with certain laws and regulations, we noted that the Hospital's Chief Financial Officer has not completed the annual continuing education programs provided by the Treasurer of the State, which is required by the Ohio Revised Code based on the types of investments the Hospital holds. However, we noted that the Hospital maintains investments in authorized types allowed under the Ohio Revised Code.

Recommendation - The Chief Financial Officer should contact the Treasurer of State in order to register for the annual continuing education programs provided.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Highland County Joint District Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We have issued a letter of recommendations to management regarding certain financial operating and efficiency matters. This report is solely intended for the information and use of the Auditor of the State of Ohio, Board of Directors and Board of Governors of Highland County Joint District Hospital, and management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, LLP

March 25, 2002

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HIGHLAND COUNTY JOINT TOWNSHIP DISTRICT HOSPITAL

HIGHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 25, 2002